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Sugar

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Report Highlights:

Despite expected lower cane production, Post's estimate for MY 2005/06 sugar production is raised to 18.4 million tons due to anticipated lower diversion of cane toward alternative sweeteners.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I: SITUATION AND OUTLOOK

Note: All data are in raw value basis, unless mentioned otherwise.

Production

Post's sugarcane production estimate for marketing year (MY) 2005/06 has been revised lower to 258 million tons, mainly on lower yields due to adverse weather conditions. However, MY 2005/06 centrifugal sugar production is expected to be marginally higher at 18.4 million tons, due to anticipated lower diversion of cane for production of the alternative sweetener 'Gur,' which follows higher and timely cane price payments by the sugar mills to the farmers. The MY 2004/05 sugar production estimate has also been raised higher to 14.2 million tons, on higher cane crushing by the mills due to lower cane diversion.

The northern states of Uttar Pradesh, Punjab, Haryana, and Bihar received inadequate monsoon rains in July and most of August, causing moisture stress during the peak crop growth stage, which will likely lead to lower yields. However, heavy rains in Maharashtra and Gujarat have caused water logging damage to the cane crop in some areas. Despite the lower cane crop, cane availability to the sugar mills is expected to be higher, as strong sugar prices will encourage mills to raise cane prices and make timely payments during the upcoming season. Most sugar mills are also expected to begin crushing 3-4 weeks earlier than normal. Consequently, the diversion of cane towards 'Gur' is expected to be lower than earlier anticipated.

Consumption

Post raised its estimate for MY 2005/06 consumption to 19.8 million tons, due to expected steady sugar prices during the upcoming season. Sugar prices remained relatively stable after a quantum jump at the beginning of MY 2004/05. Based on the latest figures provided by the Indian Sugar Mills Association, MY 2004/05 consumption was revised higher to 19.5 million tons.

Trade

Post raised its export estimate for MY 2005/06 to 100,000 tons, which is destined mainly for Pakistan and other neighboring markets. Although domestic sugar prices are still comparatively higher than international prices, the recent surge in demand from these markets may encourage some of the mills to meet their export commitments. Last season, many mills imported raw sugar under "Advance License," to refine and re-export it (See Trade Policy section). Mills with proximity to the importing country would likely prefer to meet their export commitments while international prices are comparatively strong.

SECTION II: PRODUCTION AND TRADE POLICY

The Government of India (GOI) works to raise sugar cane yields through the development and transfer of new varieties and improved production technologies to sugarcane growers. The Indian Council of Agricultural Research conducts research and development at the national level. The state agricultural universities, regional research institutions, and various state agricultural extension agencies further support these efforts at the regional and state levels. The state governments also support the sugarcane growers' efforts by providing inputs, particularly irrigation water, at near give-away prices.

The GOI annually establishes a minimum support price (MSP) for sugarcane. Some state governments further augment the MSP, typically by 20-25 percent. The sugar mills must pay

this effective state-advised price (SAP) for the sugarcane. Indian sugar mills are required to supply ten percent of their production to the government as 'levy sugar' at below-market prices; this sugar is then sold through the government's public distribution system (PDS) to consumers who are below the poverty line. Mills are allowed to sell the balance of their production as 'free sugar' at market prices. However, sales of free-sale and levy sugar are subject to quarterly quotas, so as to maintain price stability in the market.

For each ton of sugar produced, the mills are assessed a fee of rupees 140 (\$3.20), which goes into government-regulated Sugarcane Development Fund (SDF). The SDF is used to conduct various research, extension, and technological improvement activities in support of sugarcane and sugar production. In recent years, these funds have also been used to purchase buffer stocks, provide a transport subsidy for exports of sugar, and offer low-interest loans for the installation of power generation and ethanol production facilities. In its recent Union Budget, the GOI announced a special financial relief package for the sugar industry. The National Bank for Agriculture and Rural Development will provide a two-year financial package to the many financially "sick" sugar units at subsidized interest rates. The factories will also be allowed to renegotiate their old high-interest loans.

Trade Policy

To remedy the MY 2004/05 sugar shortage, the GOI initiated measures to support imports of raw sugar by the mills against future export commitments under the Advance Licensing Scheme (ALS). The mills can refine the imported raw sugar and sell it in the domestic market, but must re-export 1.00 ton of refined sugar for every 1.05 ton of imported raw sugar within a specified period. In September 2004, the GOI extended the period within which to export from one to two years. Although the GOI insists that the export commitments will not be waived, industry sources expect some relief measures for mills that have export commitments in MY 2005/06, as the sugar supply situation is expected to remain comparatively tight. With improved domestic supplies during the upcoming 2005/06 season, the GOI seems inclined to initiate measures to tighten import norms for raw sugar under the ALS. For the import policy with respect to raw and refined sugar under Open General License (imports for domestic marketing) see Table 9.

SECTION III: STATISTICAL TABLES

Table 1: Commodity, Centrifugal Sugar (raw value basis), PSD

PSD Table							
Country	India						
Commodity	Sugar, Centrifugal				(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY
Beginning Stocks	12430	12430	9100	9070	6050	5730	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	15180	15150	13770	14210	18340	18430	(1000 MT)
TOTAL Sugar Production	15180	15150	13770	14210	18340	18430	(1000 MT)
Raw Imports	550	550	2000	2000	1000	1000	(1000 MT)
Refined Imp. (Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	550	550	2000	2000	1000	1000	(1000 MT)
TOTAL SUPPLY	28160	28130	24870	25280	25390	25160	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp. (Raw Val)	250	250	20	50	20	200	(1000 MT)
TOTAL EXPORTS	250	250	20	50	20	200	(1000 MT)
Human Dom. Consumption	18810	18810	18800	19500	19300	19800	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	18810	18810	18800	19500	19300	19800	(1000 MT)
Ending Stocks	9100	9070	6050	5730	6070	5160	(1000 MT)
TOTAL DISTRIBUTION	28160	28130	24870	25280	25390	25160	(1000 MT)

Note: Stocks include only milled sugar, as all khandsari sugar produced is consumed within the marketing year. Virtually no centrifugal sugar is utilized for alcohol, feed, or other non-human consumption.

Table 2: Commodity, Sugarcane, Centrifugal, PSD

PSD Table							
Country	India						
Commodity	Sugar Cane for Centrifugal				(1000 HA) (1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY
Area Planted	4000	4000	3800	3750	4200	4140	(1000 HA)
Area Harvested	4000	4000	3800	3750	4200	4140	(1000 HA)
Production	237300	236180	234700	232320	280000	258000	(1000 MT)
TOTAL SUPPLY	237300	236180	234700	232320	280000	258000	(1000 MT)
Utilization for Sugar	143500	143010	130500	134500	171000	171000	(1000 MT)
Utilizatn for Alcohol	93800	93170	104200	97820	109000	87000	(1000 MT)
TOTAL UTILIZATION	237300	236180	234700	232320	280000	258000	(1000 MT)

Note: Virtually no cane is utilized for alcohol. 'Utilization for alcohol' includes cane used for gur, seed, feed and waste. 'Utilization for sugar' data include cane used to produce mill sugar and khandsari sugar.

Table 3: Sugarcane Area, Production, and Utilization

YEAR	AREA/1	YIELD/1	PRODUCTION/1	SUGAR/2	KHANDSARI/3	GUR /3	SEED/3
	Mha	MT/ha	MMT	MMT	MMT	MMT	MMT
1985/86	2.86	59.99	171.68	68.977	10.481	71.621	20.602
1990/91	3.69	65.39	241.05	122.319	13.175	76.626	28.925
1995/96	4.15	68.02	282.09	174.761	10.000	67.268	30.060
2000/01	4.32	68.49	295.60	176.650	11.000	72.474	35.472
2001/02	4.43	67.74	300.10	180.320	10.500	73.264	36.012
2002/03	4.36	64.58	281.58	194.325	9.500	43.961	33.789
2003/04	4.00	59.12	236.18	132.511	10.500	63.165	30.000
2004/05	3.75	61.95	232.32	124.500	10.000	64.820	33.000
2005/06	4.14	62.36	258.00	162.000	9.000	56.000	31.000

Source: /1: Directorate of Economic and Statistics, Ministry of Agriculture
/2: Indian Sugar Mills Association
/3: FAS/New Delhi estimate

Table 4: Mill Sugar Production by State

(in 100,000 metric tons crystal weight basis)

State	2003/04	2004/05	2005/06
	Final	Revised	Revised
Andhra Pradesh	8.9	9.8	11.0
Bihar	2.7	2.5	3.0
Gujarat	10.7	8.0	10.0
Haryana	5.8	4.0	4.0
Karnataka	11.2	10.6	14.0
Maharashtra	31.8	22.2	47.0
Punjab	3.9	3.2	4.0
Tamil Nadu	9.2	10.2	15.0
Uttar Pradesh	45.5	50.4	53.0
Others	5.9	6.1	6.0
Total	135.5	127.0	167.0

Note: Excludes khandsari sugar as state break-up is not available.

Source: /1: MY 2003/04 and 2004/05 - Indian Sugar Mills Association
 /2: MY 2005/06 – FAS/New Delhi Estimate

Table 5: Commodity, Centrifugal Sugar, Price Table
(price in crystal weight basis)

Prices Table			
Country	India		
Commodity	Sugar, Centrifugal		
Prices in	rupees	per uom	Metric Tons
Year	2004	2005	% Change
Jan	13800	18500	34%
Feb	14600	18670	28%
Mar	14700	18150	23%
Apr	15600	18200	17%
May	15600	17670	13%
Jun	15750	18150	15%
Jul	16000	18700	17%
Aug	15950	18400	15%
Sep	16500		-100%
Oct	16500		-100%
Nov	16500		-100%
Dec	19000		-100%
Exchange Rate	43.7	Local Currency/US \$	
Date of Quote	9/23/2005	MM/DD/YYYY	

Source & Contract Term: Indian Sugar Mills Association, Month-end prices in the Delhi wholesale market.

Table 6: Commodity, Gur, Price Table
(price in actual weight basis)

Prices Table			
Country	India		
Commodity	Non-centrifugal Sugar (GUR)		
Prices in	rupees	per uom	Metric Tons
Year	2004	2005	% Change
Jan	10000	13750	38%
Feb	11000	13750	25%
Mar	10750	13020	21%
Apr	13000	15750	21%
May	14000	17250	23%
Jun	15750	17000	8%
Jul	15500	18120	17%
Aug	17000	17500	3%
Sep	16000		- 100%
Oct	12750		- 100%
Nov	11870		- 100%
Dec	13250		- 100%
Exchange Rate	43.7	Local Currency/US \$	
Date of Quote	9/23/2005	MM/DD/YYYY	

Source & Contract Term: Indian Sugar Mills Association, Month-end prices in the Delhi wholesale market.

Table 7: Commodity, Sugarcane, Price Table
(price in Rs. per metric ton)

PRICE	2005/06	2004/05	2003/04
Minimum Support Price (MSP) *	795	745	730
State Advised Price for			
Uttar Pradesh	na	1120-1170	1000-1050
Haryana/Punjab	na	1100-1200	960-1100
Southern States	na	745-1106	730-950

Note:

* MSP for 2003/04 and 04/05 linked to a basic recovery rate of 8.5 percent. For every 0.1 % increase in recovery over 8.5 % basic recovery rate, an additional premium of rs. 8.8 and rs. 8.5/mt paid in the MY's 2004/05 and 2003/04, respectively.

MSP for 2005/06 linked to a basic recovery rate of 9.0 percent, and for every 0.1 % increase in recovery over 9.0% basic recovery rate, an additional premium of rs. 8.8 to be paid.

Exchange Rate: 2003/04 (Oct/Sept) 1 US\$ = 45.9 Indian Rs.

Sept. 23, 2005 1 US\$ = 43.7 Indian Rs.

Table 8: Sugarcane, Sugar and Molasses Prices and Yields in MY 2004/05

Prices	Rs/MT	US\$/MT
Avg. sugarcane prices paid by millers	1,100	25.3
Avg. wholesale prices of sugar	18,040	414.7
Avg. wholesale prices of molasses	3,500	80.5
Yields	Kg per MT of cane	
Sugar	102	
Molasses	45	

Table 9: India's Import Duty and Taxes on Raw and Refined Sugar (HTS 1701)

Item	Duty/Cess Rate	Import duty for Raw Sugar (Cents/Kg.) *	Import duty for Refined Sugar (Cents/Kg.) **
Basic Import Duty (A) /1	60 percent advalorem	13.70	16.24
Additional Duty (B) /2	Rs. 850 per MT	1.95	1.95
Education Cess (C) /3	2 percent of A+B	0.31	0.36
Total Applicable Duty	A+B+C	15.96	18.55
Advalorem Rate	-	69.88 percent	68.53 percent

Notes:

* - Calculated using indicator price of 10.36 cents/lb (22.84 cents/kg.) average Contract 11 FOB bulk spot prices for raw sugar stowed Caribbean port plus freight to Far East for the period October 2004 thru August 2005.

** - Calculated using indicator price of 12.28 cents/lb (27.07 cents/kg) average Contract No. 5 London daily for refined sugar FOB Europe port for the period October 2004 thru August 2005.

/1: Advalorem duty applicable on CIF value

/2: A countervailing duty equivalent to the local taxes applied on domestic sugar, which includes

(a) Central Excise tax of Rs. 340/MT

(b) Additional Excise Tax of Rs. 370/MT

(c) Cess for the Sugarcane Development Fund of Rs. 140/MT

Non-tariff Barriers: Imported sugar is also subject to the following requirements, which are applicable on domestic sugar.

1. Levy sugar obligation: importer has to surrender 10 percent of the imported sugar as levy to government at a predetermined levy price.
2. Quarterly release system: importer allocated a fixed quota (3 month) for sale of sugar in the open market.
3. Essential Commodities Act: importers have a fixed stock holding limits established by the government on application.